

Message Text

PAGE 01 NATO 01487 181238Z

60

ACTION EUR-12

INFO OCT-01 ISO-00 CIAE-00 PM-03 INR-07 L-02 ACDA-05

NSAE-00 PA-01 PRS-01 SP-02 USIA-06 TRSE-00 SAJ-01

DODE-00 EB-07 COME-00 FRB-03 NIC-01 /052 W

----- 100346

R 181145Z MAR 75

FM USMISSION NATO

TO SECSTATE WASHDC 0689

INFO ALL NATO CAPITALS 5147

USMISSION OECD PARIS

USMISSION EC BRUSSELS

C O N F I D E N T I A L USNATO 1487

E.O. 11652: GDS

TAGS: PFOR, ECON, NATO

SUBJ: ECONADS: STRATEGIC AND POLITICAL IMPLCATIONS OF ECONOMIC
SITUATION - VIEWS OF BRITISH TREASURY

REF: USNATO 1476

1. UK ECONAD DISTRIBUTED TO MEMBERS OF ECONOMIC COMMITTEE INFORMAL
NOTE FROM BRITISH TREASURY ABOUT PRESENT ECONOMIC SITUATION IN THE
UK AS ITS CONTRIBUTION TO AN EXCHANGE OF VIEWS ON THE STRATEGIC
AND POLITICAL IMPLICATIONS OF THE ECONOMIC SITUATION. COMPLETE
UK COMMENTS ON US PAPER (AC/127-WP/423) FOLLOW SEPTTEL.

2. TEXT OF BRITISH TREASURY NOTE FOLLOWS:

QTE

THIS NOTE IS IN RESPONSE TO THE REQUEST OF THE COMMITTEE,
RECORDED IN DECISION SHEET AC/127-R456 FOR COMMENTS ON THE
RECENT NOTE BY THE UNITED STATES DELEGATION AND FOR A NATIONAL
ASSESSMENT OF THE SITUATION.

UK ECONOMIC SITUATION

THE UK WOULD ACCEPT THE DESCRIPTION IN PARAGRAPH 3 OF THE
CONFIDENTIAL

PAGE 02 NATO 01487 181238Z

US NOTE (AC/127-WP/423) OF THE ECONOMIC OUTLOOK FOR NATO
COUNTRIES AS BROADLY CORRECT AND IN GENERAL TERMS APPLICABLE TO
THE UK. IN THE LONGER-TERM THE AVAILABILITY OF NORTH SEA OIL
WILL, IN THE CASE OF THE UK, REDUCE BOTH THE BALANCE OF PAYMENTS

PROBLEM AND OUR DEPENDENCE ON OUTSIDE SUPPLIERS. IN THE SHORT-TERM, HOWEVER, THE PROBLEM REMAINS THAT OF AVOIDING THE WORST EFFECTS OF THE SEVERE RECESSION, CAUSED BY THE INCREASE IN OIL PRICES, WHILE AT THE SAME TIME BRINGING INFLATION UNDER CONTROL AND MOVING OUT OF BALANCE OF PAYMENTS DEFICIT. IN THE CASE OF THE LAST-MENTIONED POINT THE PROBLEM FOR THE UK IS AGGRAVATED BY THE FACT THAT THERE WAS A LARGE DEFICIT ON CURRENT ACCOUNT BEFORE THE INCREASE IN OIL PRICES.

A MAJOR PROBLEM ACCOMPANYING THE INCREASE IN OIL PRICES IS THAT BECAUSE OF THE RELATIVELY LOW CAPACITY OF OIL-PRODUCING COUNTRIES TO ABSORB ADDITIONAL IMPORTS IN THE SHORT TERM COMMENSURATE WITH THEIR SURPLUSES FROM OIL SALES, THERE IS NO EXTERNAL OFFSET TO THE DEFLATIONARY IMPACT OF THE RISE IN OIL PRICES. HMG HAS THEREFORE CONSISTENTLY TAKEN THE LINE THAT IN THE SHORT TERM IT WILL BE NECESSARY TO ESTABLISH RE-CYCLING FACILITIES FOR THE SURPLUS OIL FUNDS SO THAT OIL-IMPORTING COUNTRIES MAY BE ABLE TO MAINTAIN A REASONABLE LEVEL OF DOMESTIC DEMAND. IT IS ALSO THE VIEW OF HMG THAT THE LEVEL OF ECONOMIC ACTIVITY IN WESTERN COUNTRIES SHOULD NOT BE FURTHER DELIBERATELY DEPRESSED IN A WAY WHICH WOULD WORSEN THE UNDER-UTILISATION OF RESOURCES CAUSED BY THE INCREASE IN OIL PRICES, SINCE DEFLATION BY INDIVIDUAL WESTERN COUNTRIES CAN ONLY REALLOCATE AMONGST THEMSELVES THE BALANCE OF PAYMENTS PROBLEM CAUSED BY THE RISE IN OIL PRICES AND NOT ELIMINATE IT.

AT THE SAME TIME, HOWEVER, IT IS ESSENTIAL FOR THE UK TO MOVE ADDITIONAL RESOURCES INTO THE BALANCE OF PAYMENTS AT ONCE IN ORDER TO ELIMINATE THE NON-OIL DEFICIT AND TO SERVICE THE INTEREST PAYMENTS ON CURRENT OVERSEAS BORROWING. PROGRESS IS ALREADY BEING MADE IN THIS DIRECTION AND THE GOVERNMENT WILL BE AIMING FOR A STEADY IMPROVEMENT. ADDITIONAL RESOURCES ARE ALSO REQUIRED FOR THE INVESTMENT SECTOR, BOTH TO MAINTAIN AGGREGATE DOMESTIC DEMAND AND BECAUSE INVESTMENT LEVELS ARE NOW DANGEROUSLY LOW.

IF, HOWEVER, RESOURCES ARE TO BE MOVED INTO THE PRIORITY BALANCE OF PAYMENTS AND INVESTMENT SECTORS, THIS MAKES IT NECESSARY TO
CONFIDENTIAL

PAGE 03 NATO 01487 181238Z

RESTRAIN THE RATE OF GROWTH OF DEMAND IN OTHER SECTORS, PRIVATE CONSUMPTION AS WELL AS PUBLIC EXPENDITURE, DEFENCE EXPENDITURE AS WELL AS OTHER FORMS OF PUBLIC EXPENDITURE HAS TO CONTRIBUTE TO THIS SHIFT OF RESOURCES, AND THE GOVERNMENT'S PROPOSALS ON PUBLIC EXPENDITURE HAVE RECENTLY BEEN PUBLISHED IN A WHITE PAPER (CMND 5879). CONSULTATIONS WITH NATO ON THE GOVERNMENT'S DEFENCE REVIEW ARE STILL IN PROGRESS.

WHILE WORLD DEMAND FOR EXPORTS AND DEMANDS ON FACTORS IS LARGELY OUTSIDE THE CONTROL OF THE UK, OR INDEED ANY SINGLE GOVERNMENT, IT IS A NECESSARY CONDITION FOR TACKLING THE BALANCE OF PAYMENTS PROBLEM THAT THE UK'S INTERNATIONAL COMPETITIVENESS SHOULD BE MAINTAINED. IT IS THEREFORE ESSENTIAL FOR EXTERNAL AS WELL AS

INTERNAL REASONS THAT THE UK'S RATE OF INFLATION SHOULD BE REDUCED
AND AT LEAST BROUGHT INTO LINE WITH LOWER RATES OF INFLATION
ELSEWHERE.

WHILE THE UNPRECEDENTED RISE IN COMMODITY PRICES HAS BEEN AN
IMPORTANT FACTOR IN CAUSING INFLATION IN THE UK IN THE LAST
YEAR OR SO, IN PRESENT CIRCUMSTANCES THE MAIN CAUSE IS NOW THAT
OF INCREASING DOMESTIC COSTS, PARTICULARLY WAGE AND SALARY
COSTS. HMG TAKES THE VIEW THAT THIS PROBLEM HAS TO BE TACKLED
WITHIN A VOLUNTARY FRAMEWORK. THE BASIS OF THE GOVERNMENT'S
POLICY IS THE SOCIAL CONTRACT UNDER WHICH THE GOVERNMENT HAS
CARRIED OUT CERTAIN SOCIAL PROGRAMMES AND THE TRADES UNION COUNCIL
HAS ISSUED GUIDANCE ON THE CONDUCT OF WAGE NEGOTIATIONS,
THE MAIN BASIS OF WHICH IS COMPENSATION FOR THE INCREASE IN
THE COST OF LIVING.
UNQUOTE.BRUCE

CONFIDENTIAL

<< END OF DOCUMENT >>

Message Attributes

Automatic Decaptioning: X
Capture Date: 18 AUG 1999
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: n/a
Control Number: n/a
Copy: SINGLE
Draft Date: 18 MAR 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: GolinoFR
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975NATO01487
Document Source: ADS
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: 11652 GDS
Errors: n/a
Film Number: n/a
From: NATO
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750398/abbrziuv.tel
Line Count: 127
Locator: TEXT ON-LINE
Office: n/a
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators:
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: USNATO 1476
Review Action: RELEASED, APPROVED
Review Authority: GolinoFR
Review Comment: n/a
Review Content Flags:
Review Date: 15 APR 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <15 APR 2003 by ShawDG>; APPROVED <16 APR 2003 by GolinoFR>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
05 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: ECONADS: STRATEGIC AND POLITICAL IMPLCATIONS OF ECONOMIC SITUATION - VIEWS OF BRITISH TREASURY
TAGS: PFOR, ECON, NATO
To: STATE INFO ALL NATO CAPITALS
OECD PARIS
EC BRUSSELS
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006